S
351.7232
L72hfa
1988
Montana. Legislature. Office of the Montana Health Facility Authority, Department of

State of Montana

Office of the Legislative Auditor

# REPORT TO THE LEGISLATURE

# MONTANA HEALTH FACILITY AUTHORITY DEPARTMENT OF COMMERCE

## Financial Audit
## For the Fiscal Year Ended June 30, 1988

PLEASE RETURN

We issued an unqualified opinion on the financial statements of the authority and our report contains no recommendations. Findings disclosed by our audit, if any, will be reported as part of the biennial audit of the Department of Commerce.

STATE DOCUMENTS COLLECTION

APR 1[illegible] 1993

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

88-27

Montana State Library
3 0864 1004 7623 6

## FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. The Office of the Legislative Auditor issues a biennial Single Audit Report for the state of Montana which fulfills those requirements on a statewide basis. The audit report presented here is therefore not intended to meet all reporting requirements of the Single Audit Act of 1984 and OMB Circular A-128.

**MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE**

Senator Judy Jacobson, Chairman
Senator Delwyn Gage
Senator Greg Jergeson
Senator Tom Keating

Representative John Cobb, Vice Chairman
Representative Dorothy Bradley
Representative Harry Fritz
Representative Bruce Simon

Office of the Legislative Auditor

# MONTANA HEALTH FACILITY AUTHORITY

# DEPARTMENT OF COMMERCE

Financial Audit for the

Fiscal Year Ended June 30, 1988

Members of the audit staff involved in this audit include: Rich McRae and Lorry Parriman

STATE OF MONTANA

# Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

February 1989

The Legislative Audit Committee
of the Montana State Legislature:

This audit report contains our opinion letter on the financial statements of the Montana Health Facility Authority of the Department of Commerce for the fiscal year ended June 30, 1988. We performed the audit solely to express an opinion on the authority's financial statements. Any findings disclosed by our audit were discussed with management and will be appropriately reported as part of our scheduled biennial audit of the Department of Commerce.

We would like to thank the administrator, his staff and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

TABLE OF CONTENTS


| | PAGE |
|---|---|
| Appointed and Administrative Officials | ii |
| Introduction and Background | 1 |
| Auditor's Opinion Letter and Agency Financial Statements | |
| Auditor's Opinion Letter | 3 |
| Balance Sheet - Enterprise Fund June 30, 1988 | 4 |
| Statement of Revenues, Expenses, and Changes in Retained Earnings, Enterprise Fund, for the Fiscal Year Ended June 30, 1988 | 5 |
| Statement of Changes in Financial Position, Enterprise Fund, for the Fiscal Year Ended June 30, 1988 | 6 |
| Notes to the Financial Statements | 7 |
| Agency Response | 12 |

## APPOINTED AND ADMINISTRATIVE OFFICIALS

## MONTANA HEALTH FACILITY AUTHORITY

### BOARD MEMBERS

| | | Term Expires |
|---|---|---|
| Mary D. Munger, Chairman | Helena | June 30, 1991 |
| Charles V. Shewey, Vice Chairman | Bozeman | June 30, 1989 |
| Sidney K. Brubaker | Terry | June 30, 1992 |
| Dalyce K. Flynn | Townsend | June 30, 1992 |
| Gregory L. Hanson | Missoula | June 30, 1992 |
| Dr. Amos (Bud) Little, Jr. | Helena | June 30, 1989 |
| Dr. Garry Pitts | Billings | June 30, 1990 |

### ADMINISTRATIVE STAFF

| | |
|---|---|
| Jerry Hoover | Administrator |
| Helen Julian | Administrative Assistant |

## INTRODUCTION

We performed a financial audit of the Montana Health Facility Authority of the Department of Commerce for the fiscal year ended June 30, 1988. The objective of the audit was to determine if the authority's financial statements present fairly its financial position at June 30, 1988, and the results of its operations and changes in financial position for the fiscal year then ended. Compliance testing of the authority is included in the regularly scheduled biennial audit of the Department of Commerce.

## BACKGROUND

The Montana Health Facility Authority was established during the 1983 Legislative Session to provide low cost financing of capital expenditures for nonprofit Montana health institutions. The authority is governed by a quasijudicial board appointed by the Governor with the advice and consent of the Senate. The authority is attached to the Department of Commerce for administrative purposes. Financial accounting for the authority's operation is performed by the department's Management Services Division. The authority currently administers the two programs discussed below.

The Pooled Loan Program is designed to provide financing and refinancing for land, buildings, equipment, and improvement costs of qualified health institutions. Under this program, the authority issues debt to establish a pool of funds for loans to project participants. The proceeds are loaned to qualifying health institutions at rates which reflect the rates paid by the authority on the bonds plus the ongoing program costs.

During fiscal year 1987-1988 there were no new Pooled Loan Program bond issues. However, a portion of proceeds from the 1985 bond issue was available for loans to qualifying health institutions. Revenue bonds outstanding for this Pooled Loan Program totaled $65,000,000 at June 30, 1988. The bonds outstanding mature in 2015. The 1985 bond issue has a provision that allows the authority to loan principal repayments received under outstanding loan agreements, for additional capital improvements to eligible health facilities. All loans being made by the authority are structured so that repayments can be used to redeem all outstanding bonds in 2015.

In October 1988 the authority issued new debt in the amount of $1,461,000 to provide a pool of funds for eight community providers of services to persons with developmental disabilities. Proceeds of the Series 1988A Bonds were used by the providers for financing and refinancing of capital acquisition, construction and improvements. In addition, a portion of the proceeds was used to make a deposit

into a reserve account and to pay a portion of the bond issuance and insurance costs. The proceeds of the Series 1988B Bonds were used to pay the remaining issuance and insurance costs.

The Single Project Financing Program authorizes tax exempt financing on a project-by-project basis. Bonds or notes are issued for individual projects under this program. Prior to fiscal year 1987-88 the authority issued debt totaling $19,640,000 for three projects ranging from $440,000 to $18,000,000. Interest and other associated costs are paid by the participating institutions.

During fiscal year 1987-88, the authority issued new debt in the amount of $16,025,000 to advance refund the 1984 City of Bozeman revenue bonds for Bozeman Deaconess Foundation.

AUDITOR'S OPINION LETTER

AND AGENCY FINANCIAL STATEMENTS

STATE OF MONTANA

# Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:
MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the Balance Sheet of the Montana Health Facility Authority - Enterprise Fund of the state of Montana as of June 30, 1988, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, and Changes in Financial Position for the fiscal year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Health Facility Authority of the state of Montana as of June 30, 1988, and the results of its operations and changes in its financial position for the year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

January 12, 1989

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

BALANCE SHEET - ENTERPRISE FUND

JUNE 30, 1988

ASSETS

| | |
|---|---|
| Cash | $ 77,697 |
| Cash with Trustee | 99,049 |
| Accounts Receivable | 3,397 |
| Prepaid Expense | 606 |
| Fixed Assets (net of accumulated depreciation) | 16,988 |
| Total Assets | $197,737 |

LIABILITIES AND RETAINED EARNINGS

| | |
|---|---|
| Liabilities: | |
| Compensated Absences | $ 13,704 |
| Accounts Payable | 10,339 |
| Total Liabilities | 24,043 |
| Retained Earnings: | 173,694 |
| Total Liablities and Retained Earnings | $197,737 |

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

| | |
|---|---|
| REVENUE | |
| Fee Income | $167,277 |
| Total Revenues | $167,277 |
| | |
| EXPENSES | |
| Personal Services | 90,890 |
| Contracted Services | 17,673 |
| Supplies and Materials | 1,899 |
| Communications | 5,795 |
| Travel | 12,043 |
| Rent | 3,167 |
| Repairs and Maintenance | 2,169 |
| Other Expenses | 11,160 |
| Depreciation - Equipment | 2,993 |
| Prior Year Expense Adjustment | 2,664 |
| Total Expenses | 150,453 |
| | |
| Revenues Over Expenses | 16,824 |
| | |
| Retained Earnings Beginning of Period | 156,870 |
| Total Retained Earnings | $173,694 |

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

STATEMENT OF CHANGES IN FINANCIAL POSITION
ENTERPRISE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

| | |
|---|---|
| SOURCES OF CASH | |
| Operations: | |
| Revenues Over Expenses | $ 16,824 |
| Item not requiring cash: | |
| Depreciation | 2,993 |
| Increase in Compensated Expenses Payable | 11,210 |
| Cash provided by Operations | 31,027 |
| Decrease in Prepaid Expenses | 139 |
| Increase in Accounts Payable | 10,314 |
| Total Sources of Cash | 41,480 |
| USES OF CASH | |
| Increase in Accounts Receivable | 3,397 |
| Increase in Cash with Trustee | 99,049 |
| Total Uses of Cash | 102,446 |
| Net Increase (Decrease) in Cash | $ (60,966) |

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1988

## 1. AUTHORIZATION

The Montana Health Facility Authority is a quasi-judicial board created by the Montana Legislature in 1983 with health care cost containment as its purpose. In the fulfillment of this purpose, the authority provides a variety of capital financing and refinancing alternatives to eligible health facilities in Montana. The authority may, in each biennium, issue bonds and notes in an aggregate principal amount not to exceed $150 million, exclusive of bonds or notes issued to refund its outstanding bonds or notes. Obligations issued by the authority do not constitute a debt, liability, obligation, or pledge of the faith and credit of the state but are payable solely from the revenues or assets of the health institution being financed. The authority is attached to the Montana Department of Commerce for administrative purposes.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Accounting

The Montana Health Facility Authority Enterprise Fund uses the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

### B. Reporting Entity

The preceding financial statements are prepared from the Statewide Budgeting and Accounting System (SBAS) with adjustments and include the financial activity of the Montana Health Facility Authority Enterprise Fund. These statements are summaries of entries in SBAS recorded for the authority and exclude any entries recorded for other agencies. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations or changes in financial position of the state of Montana.

### C. Nature of Fund

The fund maintained by the authority, which conforms with authorizing legislation and authority resolutions, is described as follows:

Enterprise Fund

The Enterprise Fund is used to account for operations (a) financed and operated similar to private business enterprises, where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or (b) where the Legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate.

D. Loans

The loans in many instances, are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the authority and utilized by the health facilities. In all remaining transactions, loan payments are secured by standby letters of credit from rated banks.

E. Project Financing

Resolutions adopted by the authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by participating health care institutions, construction costs, and issuance costs. Specific funds established by agreements are held by trustees, or other participating financial institutions for the purpose of liquidity. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

F. Fixed Assets

Fixed assets are carried at cost less accumulated depreciation of $7,875. Depreciation is provided for by using the straight-line method over the respective estimated useful lives of the assets.

G. Inventories

Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. The amount of supplies inventory on hand at June 30, 1988 was immaterial.

H. Compensated Absences

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave.

3. LIABILITIES

These liabilities do not constitute a debt or liability to the state of Montana or any political subdivision thereof and therefore, are not reflected in the financial statements of the authority.

Revenue Bonds Payable:

| Issue | Date | Interest Rate | Amount |
|---|---|---|---|
| Health Care Revenue Bonds (Pooled Loan Program) Series 1985A Variable Rate Revenue Bonds (1) | 2015 | Variable | $65,000,000 |
| Billings Deaconess Hospital Series 1985 Hospital Facilities Variable Rate Revenue Bonds | 1989-2015 | Variable | 18,000,000 |
| Hospital Facilities Refunding Revenue Bonds (Bozeman Deaconess Foundation project) Series 1987 (2) | 1988-2003 | Fixed | 15,825,000 |
| Revenue Bonds Outstanding | | | $98,825,000 |

(1) During fiscal year 1988 the authority retired $900,000 of variable rate demand bonds.

(2) During fiscal year 1988 the trustee redeemed $200,000 of fixed rate demand bonds.

Stated maturities on Revenue Bonds Payable are as follows:

| Year ended June 30: | |
|---|---|
| 1989 | $ 310,000 |
| 1990 | 325,000 |
| 1991 | 335,000 |
| 1992 | 350,000 |
| 1993 | 370,000 |
| 1994 | 390,000 |
| 1995 | 410,000 |
| 1996-2000 | 3,135,000 |
| 2001-2005 | 3,880,000 |
| 2006-2010 | 8,205,000 |
| 2011-2015 | 81,115,000 |
| TOTAL | $98,825,000 |

The bonds are payable solely from loan repayments to be made by health institutions pursuant to loan agreements and, further, from the funds created by the indenture and investment earnings thereon.

Revenue Notes Payable:

| Issue | Due | Interest Rate | Amount |
|---|---|---|---|
| West Mont Home Health Services, Inc. Series 1985 Hospital Revenue Note | 1987-2004 | 2% under Bank Floating Rate | $390,842.59 |
| Revenue Notes Outstanding | | | $390,842.59 |

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

## 4. CASH WITH TRUSTEE

The authority assesses an annual planning service fee of .15% of the principal amount of the bonds outstanding on each anniversary date, December 1, for the 1985 Pooled Loan Program. These fees remain in a designated trustee account and are drawn upon, as needed, for program expenses.

## 5. EMPLOYEES' RETIREMENT SYSTEM

The authority employees are covered by the Public Employees' Retirement System (PERS). This plan is administered by the state of Montana. Under PERS, the

state contributes 6.417 percent of an employee's gross wages to PERS. All eligible employees contribute 6.0 percent of gross wages. The authority's contribution to PERS for the fiscal year ended June 30, 1988 was $4,130.54.

The state's policy is to fund accrued pension costs. The unfunded past service costs and the actuarially computed value of the vested benefits are not readily available for the members of the plan employed by the authority. The most recent actuarial evaluation reported the Public Employees' Retirement System was actuarially sound at June 30, 1988.

## 6. SUBSEQUENT EVENTS

In October 1988, the Montana Health Facility Authority issued bonds in the amount of $1,461,000 for eight Montana providers of services to people with developmental disabilities which provided financing and refinancing of capital improvements. Loans were made to the health institutions pursuant to mortgage and loan agreements which were 2.0 to 6.2% below their existing mortgage interest rates, thereby yielding a considerable savings.

On December 1, 1988 the Authority redeemed $24,400,000 of the Series A 1985 variable rate revenue bonds. It was a mandatory redemption related to the non-origination of loans from the original bond proceeds issued on December 1, 1985.

AGENCY RESPONSE

# MONTANA HEALTH FACILITY AUTHORITY

DEPARTMENT OF COMMERCE

STAN STEPHENS, GOVERNOR

1520 EAST SIXTH AVENUE

STATE OF MONTANA

(406) 444-5435
FAX (406) 444-5439

HELENA, MONTANA 59620



RECEIVED

FEB 23 1989

Montana Legislative Auditor


February 23, 1989

Mr. Scott Seacat
Legislative Auditor
State Capital
Helena, MT 59620

Dear Mr. Seacat:

This correspondence is to inform you that the Authority is pleased with the results of the recent legislative audit and to thank you for the cooperative working relationship between the staff of your office, and the Department of Commerce and the Authority during the audit.

Sincerely,

Jerry R. Hoover
Administrator

pp




Board of Directors:

Mary D. Munger, Chairman
Helena
Charles V. Shewey, V. Chairman
Bozeman
Sidney K. Brubaker
Terry
Dalyce K. Flynn
Townsend
Dr. Bud Little
Helena
Gregory L. Hanson
Missoula